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Contents:

ECON: EC Predicts Spain Will Lag EU in Economic Recovery
ELAB: Unemployment Rise Slows in April
ECON: Ministers Discuss Fiscal Stimulus
EFIN: Large Bank Profits Down Only 18% in Q1, Delinquency Rises
EFIN: Caja Madrid Faces Problems
ENRG: Government Repeals Protectionist Energy Law

EC Predicts Spain Will Lag EU in Economic Recovery

1.(U) The European Commission on May 4 issued a report predicting that because of the housing construction slump, Spain will be the last EU country still in recession at the end of 2010. The report also forecast that Spain,s GDP would shrink by 3.2% in 2009 and 1% in 2010, when unemployment is expected to peak at 20.5%. The GOS budget deficit is expected to reach 8.6% of GDP this year and 9.8% in 2010. (El Pais, 5/5)

Unemployment Rise Slows in April

2.(U) The number of registered unemployed workers rose by 39,000 in April, the 13th consecutive monthly increase. This is the smallest increase in the last nine months, and less than a third of the 123,000 increase in March. Comment: GOS officials have said that economic developments would be somewhat better in the year,s second quarter than in the first. However, the Secretary General for Employment said in a statement that it was too early to talk about an inflection in the labor market, and some reports indicated that the figure would be worse if it were seasonally adjusted. (El Pas, 5/5; El Confidencial, 5/5; Presidency statement 5/5)

Ministers Discuss Fiscal Stimulus

3.(U) A special Council of Ministers meeting on May 6 reviewed progress in the government's fiscal stimulus efforts. First Vice President Fernandez de la Vega said the GOS had injected over 50 billion euros, or more than 2% of GDP, into the economy in one of the largest stimulus effort of any developed country. She said the eight-billion-euro municipal infrastructure project was doubling municipal investment spending and had created 92,000 new jobs. Second

Vice President and Economy/Finance Minister Salgado acknowledged that fewer individuals than expected had qualified for the government's plan to help the unemployed make mortgage payments and said the GOS was considering loosening eligibility criteria. Referring to a less direct form of fiscal stimulus, a temporary employment agency group noted that this year for the first time the government will spend more on unemployment benefits than on public investment. (Presidency statement, 5/6; El Pais, 5/7; El Confidencial, 5/8)

Large Bank Profits Down Only 18% in First Quarter, Delinquency Rises

4.(U) Spain's five largest financial institutions reported combined first-quarter profits of 4.5 billion euros, down only 18% from the first quarter of 2008. At least for this quarter, higher margins made up for some of the costs associated with an increase in loan delinquency. However, sector analysts believe future quarters will be more difficult, and banks are concentrating on reducing costs. The average loan delinquency rate for the five institutions reached 3.6%, more than triple the level of a year ago but below that of other financial institutions. As a group, the five largest institutions (Banco Santander, BBVA, La Caixa, Caja Madrid, and Banco Popular) account for a significant share of the banking sector's assets and are in better shape than many smaller institutions. (EFE, 5/2-5/3-5/4, El Pais, 5/3, El Confidencial, 5/4)

Caja Madrid Faces Problems

5.(SBU) Of the large institutions, Caja Madrid is the one that appears to be in the most difficulty. It is heavily exposed to the construction and real estate sectors, and its

delinquency rate of 5.6% is one of the highest of any financial institution. It also has been the subject of a long-running leadership battle between factions allied to Madrid mayor Alberto Ruiz-Gallardon and Madrid regional president Esperanza Aguirre, rivals within the opposition Partido Popular, though it is not clear to what extent the infighting has affected its operations. Caja Madrid has used GOS guarantees to issue 4.5 billion euros of new debt this year at a cost of 116 million euros; stronger institutions have avoided seeking government guarantees because of the relatively costly terms. Private sector deposits fell by about a billion euros (2% of the total) during the first quarter, possibly signaling a loss of depositor confidence, though public sector deposits increased. A spokesman for the company confirmed on May 5 that it is considering the issuance of "preference shares" to increase its Tier I capital ratio, which stood at 7.45% at the end of March. Because of Caja Madrid's size, any problems it has could be more serious for the financial sector, the GOS budget, and the economy as a whole than the problems of smaller cajas. (EFE, 5/2; El Mundo, 5/3)

Government Repeals Protectionist Energy Law

6.(U) A 1999 law discouraging foreign government-owned energy companies from purchasing Spanish energy companies was repealed in the decree addressing the "energy tariff deficit" (reftel). The "Rato law," named after the PP government economy minister who promoted it, allowed the GOS to authorize or reject the exercise of voting rights by any foreign government-owned firm that owned more than 3% of a Spanish energy firm. The law had been found by the EU and the European Court of Justice to violate Spain's EU obligations, even after a 2003 revision. The law had been most prominent when first approved to discourage the public French company from buying the electricity company Hidrocantabrico and during the unsuccessful 2007 effort by Germany's E.ON to purchase the electricity company ENDESA. (El Pais, 5/2)